

JPRS-CEA-86-045

21 APRIL 1986

China Report

ECONOMIC AFFAIRS

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21 April 1986

CHINA REPORT

ECONOMIC AFFAIRS

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ECONOMIC DEVELOPMENT ZONES

ZHANJIANG CITY STOPS IMPORT OF TURNKEY PROJECTS

HK260723 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 26 Mar 86 p 5

[Article by Paul Sham, recently in Zhanjiang]

[Text] Zhanjiang, designated one of China's 14 coastal open cities in 1984, has slammed the door on purchases of foreign turnkey plants and on new hotel investment.

The director of the city's foreign economic relations and trade committee, Mr Gu Jiang, said Zhanjiang will not consider importing equipment for whole-plant projects this year because of China's continuing restrictions on spending.

Last year, the city imported 28 turnkey projects amounting to US\$30 million.

Instead, Zhanjiang intends using hard-earned foreign exchange for projects involving technology transfer, in particular high-technology industries which Zhanjiang does not have at present.

For example, a US\$600,000 technology transfer agreement was reached with a British company recently to manufacture high-voltage fuses, Mr Gu said.

High priority is also being given to importing foreign technology for sugar refining and related processing, as well as for producing building materials and for pearl and shrimp cultivation.

Mr Gu said no new hotel projects are likely to be approved in the near future unless there are good results from China's second round of oil exploration.

"The supply of hotel accommodations has been enough to meet current demand," he said.

Zhanjiang has eight international-class hotels, offering more than 2,000 rooms.

Imports of foreign equipment and the level of foreign investment in Zhanjiang will show a small drop this year compared with last, he predicted.

"It will take time to absorb and digest what we got last year," he added.

Meanwhile, Zhanjiang's authority to approve foreign investment appears to have been reduced, meaning it can only grant permission for non-industrial ventures, such as hotels, costing less than US\$5 million.

Industrial projects aimed at markets other than Zhanjiang itself require permission from higher authority, Mr Gu said.

When the status of the 14 coastal open cities was first announced in early 1984, the authority to endorse projects for these cities was not separated into industrial and non-industrial development.

Mr Gu would not comment on whether the limit on Zhanjiang's authority stems from Beijing's decision in the middle of last year to concentrate development priority in four cities instead of all the 14.

The four are Dalian, Shanghai, Guangzhou and Tianjin.

He admitted the four cities enjoy more privileges in seeking foreign investment, but said this was more a reflection of their industrial strength than anything else.

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CSO: 4020/263

ECONOMIC DEVELOPMENT ZONES

DALIAN CITY INVITES FOREIGN CAPITAL, TECHNOLOGY

HK030742 Beijing CHINA DAILY in English 3 Apr 86 p 2

[Article by staff reporter Wang Dongtai]

[Text] The city of Dalian, a major warm water port in northeast China, is inviting an influx of foreign capital, technology and management expertise to aid its economic growth.

Wei Fuhai, mayor of the port city, says the nation's open policy has made it all possible.

Dalian, however, is in no hurry to follow the example of Shenzhen, a special economic zone where great changes have taken place since its opening to the outside world. Wei told CHINA DAILY that while Shenzhen was a pioneer and achieved remarkable results, his city would choose a path more suited to its particular circumstances.

Wei said that while Shenzhen attracts investment from compatriots whose ancestors lived in the city, Dalian must rely more on help from foreigners who have no kinship with the city.

"They won't come to invest unless they can make profits," the mayor said. "That's why we must offer benefits."

Dalian Economic Development Zone, begun in 1984, is now ready for investment with a well-built infrastructure. The zone includes three square kilometres of industrial sites and tho [as published] square kilometres of working and residential quarters.

The entire zone will be 20 square kilometres. By 1990, the economic zone is expected to house 100 factories and by the year 2000, 500 factories.

At present, construction of 14 company sites has already started, five of which involve imported projects. One will be a factory to produce easy-open drink bottles. The plant will begin production in June.

Wei said he is certain that more foreign entrepreneurs will come to the city, fanning rapid growth.

The mayor said Dalian harbour, second largest in the country, will play a very important role in the growth. A new harbour will be built near the economic development zone.

With sea transport guaranteed, the city's attention has turned to air transport. A new airport has announced it will handle international flights in the near future. A Dalian-Tokyo link will be the first international service.

"This is only the beginning," the mayor said, "a lot more has to be done."

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ECONOMIC DEVELOPMENT ZONES

QINGDAO DEVELOPMENT ZONE CONSTRUCTION CONTINUES

OW271025 Beijing XINHUA in English 0733 GMT 27 March 86

[Text] Qingdao, 27 March (XINHUA) -- Foreign business people and industrialists have already flocked to the Qingdao economic and technical development zone on business talks although its infrastructure construction continues.

An official of the development zone said today that the zone has received business people from 23 countries and regions including Japan, the United States and Hong Kong and Macao over the past year and signed 63 agreements, letters of intent or memoranda with them.

Of the five joint venture and cooperative scheme contracts signed, some is slated to go into operation within this year, he said.

Qingdao is one of China's 14 coastal cities open to foreign investment. It designated a 15 square kilometer area on a small isle as its economic and technical development zone to attract foreign investment. Infrastructure construction, which began in March of last year, is now concentrated on two square kilometers.

Now roads have already linked the zone with the city and sea ports and a waterworks with a daily supplying capacity of 20,000 tons has been completed, with water diverted from a reservoir through a 21-kilometer pipeline. An official power supply line will be put up this year. Telephone and telex services have already begun.

A hotel, a restaurant, a big warehouse and two general workshops are rising.

The zone's official expects establishment of more joint ventures and cooperative enterprises in the zone, adding that the zone will soon become a flourishing industrial area.

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CSC: 4020/260

PRC MAY BAN HONG KONG DOLLAR, FOREIGN EXCHANGE CERTIFICATES

HK300616 Hong Kong SOUTH CHINA MORNING POST in English 30 Mar 86 p 1

[Article by Terry Cheng]

[Text] China is likely to ban the use of Hong Kong dollars and its own Foreign Exchange Certificates (FEC) this year, a leading economist said yesterday. Professor Qian Jiaju, a member of the Standing Committee of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), said the use of Hong Kong currency was detrimental to China's sovereignty and national prestige. It had also caused financial loss to China, he said.

Professor Qian, who is also chairman of the Shenzhen Economic Studies Society, last year visited Hong Kong and Guangdong to study the circulation of Hong Kong dollars in China. He later made a report to the State Council.

According to Professor Qian, the Hong Kong dollar is the most popular currency in Shenzhen and other parts of Guangdong. FECs, which allow access to high-quality imported consumer goods, are the second most popular while renminbi (RMB) are least desired.

In a group meeting of CPPCC members last week, Professor Qian said the use of different currencies in China's special economic zones was "chaotic," adding that there were many demerits in using the Hong Kong dollar and FECS. The situation could and would be rectified, he said.

Professor Qian said that China would probably ban the use of Hong Kong dollar and FECs in China later this year.

In the past, overseas Chinese remitted money through the Bank of China to their relatives in China. Because of this the Chinese Government had greater foreign currency reserves. Now that overseas Chinese are bringing the Hong Kong currency directly to their relatives, the government can no longer count them as foreign reserves.

Professor Qian said proposed cancellation of FEC was opposed by the Guangdong authority in the past because the province had a large number of joint ventures which needed FECs for funding.

He said in future these joint ventures could ask the government to exchange RMB into foreign currencies for funding.

Professor Qian said the official exchange rate for RMB was previously unreasonable which gave rise to a black market.

The exchange rate was not being readjusted, he said.

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CSO: 4020/267

FINANCE AND BANKING

GUANGDONG SAMURAI BOND ISSUE APPROVED BY PEOPLE'S BANK

HK250429 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD Supplement)
in English 25 Mar 86 p 1

[Text] The maiden Samurai bond issue of 10 billion yen by the Guangdong International Trust and Investment Corp (GITIC), has just been given the green light by the country's central bank, the People's Bank of China. This signifies another advance by Chinese institutions into the international capital market.

GITIC has already applied for credit rating by the Japanese community, a procedure that usually takes about 2 months, before finally deciding on the exact timing of the issue. Such rating is a necessity for foreign institutions making their bond issues in Japan for the first time.

The GITIC issue will most probably be used to finance the expansion of Guangdong's camera and film manufacturing industries.

Meanwhile, to take advantage of the current strength of the yen as well as the relatively low interest rate of the Japanese currency, a number of Chinese institutions are contemplating yen bond issues in Japan.

General manager of GITIC's subsidiary, Guangdong Finance Co, Mr Qin Ruzheng, told BUSINESS STANDARD that GITIC still had to wait for the best interest and exchange rates. "It will be followed by a number of formalities on the Japanese side which, again, will take some time," he said.

The general manager of the Industrial Bank of Japan's Hong Kong branch, Mr Yasushi Kajiwara, said he expected GITIC would get a "Double A" rating in Japan, the same as China International Trust and Investment Corp (CITIC) and Fujian Investment and Enterprises Corp (FIEC), who launched a 10 billion yen issue in Japan at the end of last year.

The Bank of China's rating there, however, is "Triple A."

Mr Kajiware expects GITIC to wait for the results of the rating, and whether they are in its favor, before deciding on the issue and inviting [as published] underwriters.

He considers the current unprecedented strength of yen as highly favorable for yen bond issues and expects the Japanese currency to stay strong by the time the credit rating is completed.

Mr Qin of Guangdong Finance noted that the company also has plans to tap the local capital market in the near future and that concrete measures are being taken for such issues.

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CSO: 4020/267

FINANCE AND BANKING

BRIEFS

NEWS BRIEFS ON GOLD RESERVE--Beijing, 3 Apr (XINHUA)--Today's economic news in brief (3): China's gold reserve--China's gold reserves amounted to 12,670,000 ounces by the end of last year, according to statistics released by the People's Bank of China here today. The bank also revealed that China's total foreign currency reserves amounted to the equivalent of U.S.\$11,913 million by last December. [Excerpt] [Beijing XINHUA in English 1906 GMT 3 Apr 86] /9604

FOREIGN EXCHANGE RESERVES DOWN--Beijing, 4 Apr (XINHUA)--China's foreign exchange reserves totaled U.S.\$11.913 billion at the end of 1985, down from U.S.\$14.42 billion at the end of 1984, CHINA FINANCE reported today. Of the reserves at the end of 1985, state foreign exchange totaled U.S.\$2.644 billion, and reserves of the Bank of China, the country's foreign exchange bank, totaled U.S.\$9.269 billion. CHINA FINANCE, the monthly of the People's Bank of China, also reported that China's gold reserves were 12.67 million ounces at the end of last year, while outstanding loans from foreign sources totaled U.S.\$5.067 billion. [Text] [Beijing XINHUA in English 1052 GMT 4 Apr 86] /9604

MORE LOANS TO RURAL INDUSTRY--Beijing, 1 Apr (XINHUA)--The Agricultural Bank of China will issue one billion yuan more loans this year than last to rural industrial businesses to aid their development, according to a bank spokesman today. [Excerpt] [Beijing XINHUA in English 0701 GMT 1 Apr 86] /9604

POSTAL SAVINGS SYSTEM--Zhengzhou, 1 Apr (XINHUA)--A postal savings system offering interest rates similar to those of banks started nationwide today following an agreement between the Ministry of Posts and Telecommunications and the People's Bank of China. The service has been introduced to cope with the increasing number of people who have savings to deposit. From 1 February, trial runs of the system have been carried out by 23 post offices in 12 cities. Up to mid-March, about 33,700 people had opened accounts with total funds of more than 4 million yuan, a conference on the new service was told here today. According to the Ministry of Posts and Telecommunications, it has 50,000 service centers throughout the country. [Text] [Beijing XINHUA in English 1506 GMT 1 Apr 86] /9604

CSO: 4020/267

MINERAL RESOURCES

BRIEFS

RARE-EARTH METALS PRODUCTION--Beijing, 4 Apr (XINHUA)--The production capacity of China's 30 rare-earth smelteries has reached 12,000 tons of metal a year, CHINA'S SCIENCE AND TECHNOLOGY JOURNAL reported today. Rare-earth metals are used in aluminum and steel production as well as in high technology manufacturing. China, with the largest rare-earth reserves in the world, over the last 5 years earned more than U.S.\$100 million from rare-earth exports--only a fraction of its potential, the weekly said. As part of China's drive for modernization and increased exports, 30,000 scientists and technicians have been working for a decade to industrialize the country's rare-earth production. So far, 80 percent of their 300 research findings have been implemented, according to the paper. [Text] [Beijing XINHUA in English 0721 GMT 4 Apr 86] /9604

CSO: 4020/264

INDUSTRY

SHAANXI ENGINEER MEETS ZHAO ZIYANG, OTHER LEADERS AT FORUM

HK280919 Xian Shaanxi Provincial Service in Mandarin 2300 GMT 23 Mar 86

[Newsletter by (Wang Xinning), station correspondent: "He Contributes Toward the Motherland's Aviation Cause--Deeds of (Xu Peilin), Acting Chief Engineer of the Shaanxi Aircraft Manufacturing Company"]

[Text] On the afternoon of 24 January this year, leaders of the party and state, including Zhao Ziyang, Yang Shangkun, Hu Qili, and Li Peng, held a forum in Zhongnanhai with 20 experts of the Ministry of Aviation Industry and the Ministry of Ordnance Industry. At the beginning of the forum, Comrade Hu Qili said: You, 20 experts, are science and technology workers who have made great contributions toward the development of our aircraft and weapons. Due to the fact that the work in which you have engaged is related to national defense, newspapers have given little publicity to you and you have not been known to people very well and are unknown heroes. However, your contributions and achievements will never be forgotten by the party and people. It is because of this that your spirit is still more praiseworthy.

Of these 20 unknown heroes, one is a senior engineer of the Shaanxi Aircraft Manufacturing Company and expert in aircraft design, (Xu Peilin). (Xu Peilin) is 61 years old this year. He has devoted his youth and wisdom, and energies to the motherland's aviation cause. Under his leadership, specialized aircraft, including the Yun-8 type medium-range transport plane, were manufactured and luster was added to our country's aviation cause. When he was studying and making the Yun-8 Heiyang-transporting plane, (Xu Peilin) worked hard and scored many achievements. To quickly work out a rational design plan, he took technological management measures to coordinate design with techniques so that design, techniques, and preparations for production could develop in a complete manner and the manufacturing work could be speeded up. To guarantee the safe trial flight of the transport plane, it was necessary to rush to make two separating cushions. (Xu Peilin) worked hard on Sundays and organized technicians to tackle the difficult problems and to rush to make them. He completed his task on schedule. Not long afterward, avalanches occurred in Xizang. The Heiyang helicopters which rushed to the disaster areas to do rescue work were transported to the spot in some 3 hours by the Yun-8 transport plane which was manufactured under the leadership of (Xu Peilin).

In 1983, when the Shaanxi Aircraft Manufacturing Company received the task of studying and making the Yun-8 maritime patrol aircraft, (Xu Peilin) cherished his confidence in doing credit to the country, worked hard day and night, was busy running about to various places at home and abroad, and, with his abundant professional knowledge and his skill in foreign languages, successfully agreed contracts with foreign firms for importing some accessories. Despite fatigue from working hard over a long period of time, he was once in the aircraft for 7 hours during its trial flight at low altitude over the sea.

After attending the forum in Beijing with the leaders of the party and state, (Xu Peilin) felt more strongly that his duty is important and his mission is arduous. He has resolved to work still harder and to make new contributions toward the motherland's aviation cause.

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CSO: 4006/883

INDUSTRY

BRIEFS

EQUIPMENT APPROVED AT JIANGSU PLANT--Nanjing, 2 Apr (XINHUA)--A complete set of polyester equipment, manufactured in China with imported technology, passed state approval today at China's largest chemical fiber works in Yizheng, Jiangsu Province. Consisting of 31 key machines, the set is able to produce 15,000 tons of polyester staple fiber a year. Trial operations over the past half-year showed that both the equipment and product quality are up to the advanced world level. The technology was imported from the Toyo Cotton Spinning Company of Japan. [Text]
[Beijing XINHUA in English 1526 GMT 2 Apr 86] /9604

XIZANG HANDICRAFTS INDUSTRY DEVELOPING--Lhasa, 3 Apr (XINHUA)--The annual output value of Tibet's handicrafts industry reached 31.6 million yuan in 1985, some 6.17 times the figure for 1980. According to local officials here today, Tibet's handicrafts industry has developed the fastest of all China's provinces, autonomous regions, and municipalities. The officials said there are now 108 handicraft-producing enterprises in the Tibet Autonomous Region, employing more than 6,000 workers. [Text]
[Beijing XINHUA in English 1654 GMT 3 Apr 86] /9604

CSO: 4020/266

CONSTRUCTION

BRIEFS

GROUND BROKEN FOR SODA PLANT--Shijiazhuang, 1 Apr (XINHUA)--Construction started today on a plant to produce 600,000 tons of soda ash annually, in Tangshan, a city in Hebei Province devastated by an earthquake 10 years ago. The Hebei Tangshan soda plant, one of the three large soda plants to be built in the seventh 5-year plan period (1986-1990), is expected to be China's largest. The plant is 60 kilometers from the Tangshan City center near the Bohai Bay, where there are a large salt field, limestone deposits, a chemical fertilizer plant and a coal mine that can provide raw materials for it. The other two same-scale soda plants will be built in Shangdong and Jiangsu Provinces, east China. [Text] [Beijing XINHUA in English 1453 GMT 1 Apr 86] /9604

HEAVY-DUTY TRUCK CENTER--Beijing, 1 Apr (XINHUA)--A heavy-duty truck center will be built on an existing automobile plant in Xian, Shaanxi Province, with an investment of 32 million yuan during the seventh 5-year plan (1986-1990), according to an agreement signed between the plant and the central authorities. Meanwhile, a workshop will be built with an investment of 79 million yuan to produce heavy-duty trucks with technology imported from Austria. The workshop, which will go into operation in 1988, is designed to produce 5,100 trucks a year. [Text] [Beijing XINHUA in English 1455 GMT 1 Apr 86] /9604

CSO: 4020/266

FOREIGN TRADE AND INVESTMENT

FOREIGN-OWNED ENTERPRISES THRIVE ON LOW COSTS, RESOURCES

OW021014 Beijing XINHUA in English 0958 GMT 2 Apr 86

[Text] Beijing, April 2 (XINHUA)--Low labor costs and rich resources have helped more than a hundred wholly-foreign-owned enterprises thrive in China.

One of the most successful is Chia Tai Conti Feed Factory. A couple of years ago, the Hong Kong-based Chia Tai Conti Co. Limited invested 26.85 million U.S. dollars to build the factory in China's Shenzhen Special Economic Zone. Now it is cashing in on feed products sold in China and other countries.

By the end of 1985, the number of such enterprises had reached 120, with investors from Indonesia, Japan, the Netherlands, Singapore and the United States joining those early comers from Hong Kong and Macao.

China also has benefited from its policy to allow foreign investors to run enterprises on its land. In addition to more than 500 million U.S. dollars invested in China, jobs have been created and advanced technology and sophisticated services introduced.

The purpose of allowing foreign-owned enterprises is to expand China's economic cooperation and technological exchanges with other countries and regions, and to attract more foreign investment, according to a Chinese official.

Since the first foreign-funded enterprise was set up in Shenzhen, Guangdong Province, in 1980, such enterprises have spread to the other three special economic zones as well as Shanghai, Beijing, Beihai in the Guangxi Zhang Autonomous Region, Changsha in Hunan Province and Quanzhou in Fujian Province.

Their business scope has expanded to cover many fields, including electronics, building materials, machine building, ceramics, food processing, feed products, garment production, house decoration, packaging and medicine production, as well as hotels and real estate.

Of the 120 foreign-owned enterprises, 58 are production-oriented, while 17 are engaged in real estate.

Wholly-foreign-owned enterprises make up only two percent of the more than 6,000 enterprises that involve foreign funds in the country.

People in China's economic and commercial circles are expecting foreign investors to set up more production-oriented and technology-intensive enterprises in China.

"Although the scale of wholly-foreign-owned enterprises is not large now," said a Chinese foreign trade official, "there is a wide field and also a bright future for foreign business people to operate their own enterprises in China."

After enacting a law on Sino-foreign joint ventures, according to the official, China will soon pass a law on wholly-foreign-owned enterprises at the annual session of the National People's Congress now going on in Beijing.

China will construct a large number of transportation, energy and telecommunications projects in the near future.

All this, he said, will provide foreign investors with further legal protection and a better investment environment.

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CSO: 4020/263

FOREIGN TRADE AND INVESTMENT

CPPCC DELEGATES SAY OPEN POLICY SUCCESSFUL

OW011204 Beijing XINHUA in English 1136 GMT 1 Apr 86

[Text] Beijing, 1 April (XINHUA) -- "China has successfully carried out its open policy over the past five years," entrepreneurs attending the current session of the Chinese People's Political Consultative Conference (CPPCC) hailed here today.

Jing Shuping, member of the board of China International Trust and Investment Corporation (CITIC), said that 4.2 percent of China's investment in capital construction came from foreign funds in the past five years.

Jing, a senior specialist in foreign economic relations and trade, is also vice-chairman of the board of China International Economic Consulting Company.

China has scored two outstanding achievements in the past few years in the field of foreign economic relations.

First, the opening of China to the outside world has been speeded up. There were 188 cooperative projects between 1979 and 1983, but the figure jumped up to 1,897 by the end of September 1985, a ten-fold increase over two years. "The speed is remarkable," Jing remarked.

Second, the range of industries has been widened for sino-foreign cooperation. The tourism, textile and other light industries have been joined by oil exploration, transportation and communications, and machine-building industry. Now all provinces, municipalities and autonomous regions, except Tibet, have their own joint ventures and cooperative projects with foreign firms.

Jing described China's decision to expand its foreign trade and the use of more foreign funds and imported technology in the next five years, "a demonstration of a clearer goal and firmer step of the country in implementing the open policy."

He expressed the belief that with steady steps and effective measures, China's enterprises will be able, by 2,000, to reach the level of advanced countries in the early 1980's.

Yet Jing admitted that in reaching the goal, China must first of all face some of the pressing problems that have emerged over the past years.

The most important task at present is to work out a program to integrate the country's import and the use of foreign funds, he said, adding that a better guidance of the state departments is necessary to guard against repetitious importing and construction.

Jing stressed that more laws concerning foreign business in China, especially in the areas of banking and insurance, should be drawn up to guarantee the rights of the foreign enterprises.

China has already formulated a number of laws concerning foreign investment in China, such as regulations on cooperation terms and foreign currency balance and a law on economic contracts involving foreign investment in China. Another law on exclusively-foreign-owned enterprises will be examined and adopted at the current National People's Congress session.

Rong Renben, technical advisor to the Shanghai optical instruments company, suggested that imported technology from the coastal provinces be transferred to the inner parts of the country to prevent repetitious purchases.

Qiao Peixin, former vice-president of the Bank of China, stressed that the goal of imports is to help China's modernization, and thus only advanced technology and facilities should be imported.

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CSO: 4020/260

FOREIGN TRADE AND INVESTMENT

GUANGZHOU DEVELOPS NEW HONG KONG, MACAO ECONOMIC RELATIONS

HK030750 Beijing CHINA DAILY in English 3 Apr 86 p 2

[Article by staff reporter Zhang Chuxiong]

[Text] Guangzhou--New trends are emerging in this southern city's economic relations with Hong Kong, Macao and foreign countries, said Xu Zhi, deputy secretary general of the Guangzhou Municipal People's Government.

In a report delivered at a meeting yesterday on reform of the economic system, Xu said the city's foreign economic posture has been greatly elevated.

In the past, the city mainly processed products with materials provided by customers from Hong Kong, Macao and foreign firms. But it is now turning to establishing joint ventures. Last year, Xu said, the city signed 53 contracts for joint ventures.

Tourist services, once a mainstay of the city, are sharing the economic growth limelight with agricultural and industrial projects. Of all contracts signed last year for joint ventures and cooperative production, he said, 157 belonged to the agricultural and industrial category.

Hong Kong and Macao have also given way as principal to partners in Guangzhou development to foreign investors from Europe, the U.S. and Japan. Last year those overseas investments accounted for 38 percent of investment.

In the past seven years, the city has signed 578 contracts for joint ventures, co-management projects and barter trade. The contracts were valued at \$1.17 billion.

More than 200 advanced production lines and large quantities of advanced equipment have been introduced to the city from foreign countries, the deputy secretary general said.

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CSO: 4020/263

FOREIGN TRADE AND INVESTMENT

POST EXAMINES PRC'S ATTITUDES ON OIL PRICES

HK030724 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 3 Apr 86 p 6

[Editorial: "Crude Reminder for China"]

[Text] The current slump in spot market prices for oil is giving China a rude reminder of the vagaries of a more market-oriented economy.

Oil sales, along with coal, are a central element in Beijing's push to boost export earnings to generate the hard currency so vital to finance the imports considered essential to its ongoing modernization program.

In this, China has adopted a prudent policy.

With the wisdom that so often comes with hindsight, the Mandarins now holding the reins of power in China have observed the problems confronting those third world countries that embarked on massive spending programs, courtesy of the largesse of the Western banking system.

The folly of unrestrained credit, both to the debtor nations and the banks themselves, is now patently self-evident.

That China avoided this was probably partly fortuitous, in that its modernization program was only in its infancy, and Deng Xiaoping still embroiled in establishing his political authority, when the Eastern banks, awash with petrodollars, were actively touting for business in the Third World with the enthusiasm of used-car salesmen.

Perhaps if Deng has secured power immediately after his mentor's death, Chou Enlai, in January 1976, China might have followed this course. But that's a question for students of economic history.

The reality today remains a frugal China still anxious to hold sizeable foreign currency reserves -- and to limit its overseas borrowings.

Yet as a closed session to the National People's Congress heard last week, these reserves will lack for oil-generated income this year as the Minister for Foreign Economic Relations and Trade Zheng Tuobin spelt out.

In an internal paper, Mr Zheng reported that a U.S. \$1 drop in the price of a barrel of oil will cost China about U.S. \$200 million in revenue.

That will hurt, as it has all members and non-members of the Organization of Petroleum Exporting Countries.

And OPEC is proof that aside from the wringing of hands and name-calling there is precious little to be done to halt the price slide.

For China, it means the only politically-viable option will be to tighten its import belt.

As State Councillor and Minister in Charge of the State Planning Commission, Song Ping, told delegates at the same congress, the target for overall exports is down to U.S. \$56.8 billion, a drop from U.S. \$59.2 billion.

With exports still set to rise U.S. \$2.4 billion to U.S. \$28.2 billion, it will mean nearly a U.S. \$5 billion cut in the import bill to U.S. \$28.6 billion.

This does not mean Deng and his coterie of moderates will be forced to sidetrack China's modernization program.

If the diminutive octogenarian could still hold the line after the political opposition that emerged last year to his economic reforms, it is unlikely a decline in export earnings will seriously affect the program.

Even without lower export earnings and the political opposition of those cadres more comfortable with a centrally-planned economy, it would have been necessary to cool an economy that was patently overheating.

But all this means, as Deng assures every visiting dignitary to the Great Hall of the People, is a slowing of the reform process, not its derailing.

That said, there will be some side-effects from a continuing tough policy on imports, and Hong Kong for one has been and will remain affected.

Last year when China saw its carefully accumulated foreign reserves sliding down a path of consumer-oriented imports, it was quick to apply the brakes.

In the current climate the brakes are not likely to be eased. If anything, Beijing's foot is likely to come down harder.

This is certainly now news for Hong Kong's manufacturers, but it does emphasize that those analysts who were looking for a relatively quick relaxation in China's policy on consumer imports may have a long wait.

While the first priority of the John Doe over the border may be a television set, he can be assured this is way down the shopping list of the cadres in Beijing, who, incidentally, are already likely to have a set.

But this said, China is discovering that while it is relatively painless (politically) to slash consumer imports, it would be fatuous in the extreme to believe cutbacks here will resolve this complex issue.

Because those items so essential to China's modernization program, such as upgrading telecommunications, transport and harbors, absorb the lion's share of the foreign currency reserves.

In these areas China cannot call a halt. Even a strategic retreat is out of the question. Too much political prestige is on the line.

Which just might force China to swallow its pride and enlist the services of those foreign banks that now find Latin America and Africa so unpalatable.

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FOREIGN TRADE AND INVESTMENT

HU PING SAYS FUJIAN BENEFITS FROM OPEN POLICY

OW221956 Beijing XINHUA in English 1625 GMT 22 Mar 86

[Text] Fuzhou, 22 March (XINHUA) -- Fujian, an east China coastal province, has benefited from the open policy and other economic reform which it is pioneering, governor Hu Ping said here today.

The average income of the people in Fujian has more than doubled in the past seven years, thanks to an economic boom accompanying the new policies.

Fujian and Guangdong were the first Chinese provinces to open to foreign investors.

Speaking at a provincial planning conference, Hu said that Fujian's 1985 industrial and agricultural output value amounted to 23.7 billion yuan, double that five years ago.

This meant a 12.2 percent increase every year, he said, higher than the average rate of increase for the entire nation.

The assets added in the past five years were worth 8.8 billion yuan, twice as great as the figure for the previous 30 years.

Meanwhile, 699 joint ventures, co-production enterprises and enterprises with sole foreign investment have been set up in Fujian under the policy of giving preferential treatment to investors.

The province has also conducted 750 retooling projects with imported technology. About 30 percent of the imported technological items are up to the international standards in the late 70's or early 80's.

In the past five years, 1.5 billion yuan has been used to build housing for urban people.

Hu Ping also gave statistics of infra-structure facilities built in recent years to prepare provinces for more foreign investment.

Now, the province has contacts with banking institutions in scores of countries and is trading with some 120 countries.

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FOREIGN TRADE AND INVESTMENT

GUANGDONG IMPORTS MACHINERY, UPDATES INDUSTRY

OW271101 Beijing XINHUA in English 1037 GMT 27 Mar 86

[Text] Guangzhou, 27 March (XINHUA) -- Guangdong province in South China has imported more than 500,000 machines and 700 production lines since it opened to foreign businesses in 1979, according to local authorities.

Since then, the province has spent a total of 1,650 million U.S. dollars on such imports, including the related technology.

The imports have contributed to updating its electronics, textile, petroleum and plastics industries.

Maoming petroleum industry company, which was built in the 1960's, imported installations for oil refining and paraffin wax production. As a result, its annual oil-refining capacity has risen from four million to six million tons and the variety of products has increased from 60 to more than 100.

Export products number 27 at present, as against six before; the total export value was almost 200 million U.S. dollars last year.

The output value of the electronics industry has quadrupled over the past three years, jumping from eighth place to third in China.

The local textile industry was once backward. Now it exports goods worth nearly 100 million U.S. dollars a year.

Some 43 percent of the 2.5 billion yuan-worth of industrial products manufactured by the province's Shenzhen special economic zones, are now exported.

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FOREIGN TRADE AND INVESTMENT

HEILONGJIANG OVERSEAS TIES PROMOTE ECONOMY

OW031648 Beijing XINHUA in English 1632 GMT 3 Apr 86

[Text] Harbin, April 3 (XINHUA)--China's northeasternmost province of Heilongjiang has capitalized on its friendship ties with foreign provinces to promote its economic development.

According to the director of the provincial foreign affairs department, from 1983 to 1984 the province's trade volume with the United States amounted to nine million U.S. dollars and one third of its foreign trade was conducted with Japan.

The province has established sistership ties with the states of Wisconsin and Alaska in the United States, Alberta Province in Canada and Nigata Prefecture in Japan.

Last year alone, Heilongjiang imported oilfield exploitation equipment worth 15 million U.S. dollars from Alberta and 150 breeding dairy cows from Wisconsin, the director said.

It also sent scientific and educational delegates to these places, and exchanged students with Nigata.

The director said that the province would strengthen its good neighbourly relations with the Soviet Union and the Democratic People's Republic of Korea. It will continue to strengthen its ties with industrially developed countries, especially the friendly exchange with Eastern European countries.

The director said that the province has already concluded some economic and technical cooperation projects with Poland and Czechoslovakia.

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FOREIGN TRADE AND INVESTMENT

SHANDONG ATTRACTS MORE FOREIGN VENTURE CAPITAL

OW271147 Beijing XINHUA in English 1109 GMT 27 Mar 86

[Text] Jinan, 27 March (XINHUA) -- Flexible policies have helped Shandong Province attract joint ventures with foreigners, an official of the provincial foreign economic relations and trade commission said today.

According to one helpful policy, the official said, three Shandong cities -- Qingdao, Yantai and Jinan, the provincial capital -- can approve joint ventures involving less than five million U.S. dollars without checking with provincial leaders. Other cities in Shandong must seek approval for all joint ventures involving more than three million U.S. dollars.

As a result of this and other flexible policies, the eastern China province has developed cooperative ventures involving 140 foreign countries and regions, the official said.

To attract foreign capital, Shandong also has published a list of needed technology that the province would purchase if financing were available.

In 1985 alone, it attracted 201 million U.S. dollars in overseas capital and established 32 joint ventures and cooperative enterprises, according to the official.

So far, the official said, the province's largest joint venture is the Hualin plywood limited corporation, run by Qingdao city and Finland with an investment valued at 18.88 million U.S. dollars.

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FOREIGN TRADE AND INVESTMENT

RESCUED SHANGHAI HONG KONG VENTURE NOW PROFITABLE

OW310608 Beijing XINHUA in English 0248 GMT 31 Mar 86

[Text] Shanghai, 31 March (XINHUA) -- A Shanghai-Hong Kong woolen joint venture, which was rescued from financial troubles by the municipal council, is now making big profits.

The Shanghai woolen textiles corporation was set up by a Shanghai hemp mill and Jack Tang, chairman of the Hong Kong General Chamber of Commerce, in 1981, backed by investment worth 6.6 million U.S. dollars.

However, in its first year of operation, it ran into difficulties, and lost 800,000 yuan (250,000 dollars).

Municipal authorities stepped in to help the venture unclog supply and distribution channels. They also exempted it from industrial and commercial tax for two years and halved its ground rent.

As a result, the enterprise earned an after-tax profit of more than 20 million yuan (6.25 million dollars) up to the end of last year, said general manager Duanmu Xihua.

Over the past few years, the enterprise has developed 2,000 products, he said. Up to the end of last year, it exported 13 million dollars worth of goods.

Duanmu said an expansion scheme would start next month to enable the venture to produce an additional 1,000 tons of wool yarn, 1,200,000 sweaters and 1,200,000 meters of woolen fabrics a year.

Shanghai has 160 Sino-foreign joint ventures and co-operative enterprises. So far, 75 have gone into operation.

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FOREIGN TRADE AND INVESTMENT

JIANG ZEMIN SAYS SHANGHAI TO BOOST EXPORTS

OW311406 Beijing XINHUA in English 1327 GMT 31 Mar 86

[Text] Beijing, 31 March (XINHUA) -- Shanghai, China's leading area producing goods for export, expects to boost this trade sector by 19 percent in 1990, the last year of the country's seventh five-year plan, compared to 1985, when the figure was 3.36 billion U.S. dollars.

Revealing this at a panel discussion today, Jiang Zemin, mayor of Shanghai and a deputy to the current National People's Congress, said: "this is one of the measures we are using to promote the growth of the Shanghai economy and to turn our city in to an open port."

The 1990 export volume of this largest industrial city in China will account for 10.5 percent of the country's total. Shanghai's 1985 export volume accounted for 12.5 percent of the country's total.

Shanghai now has direct trade ties with more than 160 countries and regions while consolidating its market in Hong Kong and Macao, European and American countries, and Japan, it will expand its trade with the Soviet Union, eastern European countries, the gulf region and southeast Asian countries, the mayor said.

The mayor added that his city will readjust the mix of products, upgrade their quality and improve transport services while at the same time revamping enterprise. In addition, the city will take steps to manufacture a large number of varieties of famous-brand products.

Jiang Zemin said: "efforts are to be made to boost tourism, air and marine transportation and the city's foreign insurance business."

Shanghai will continue to use direct foreign investment through various channels and, foreign commercial loans in particular, the mayor said.

"We'll stick to the open policy and use more foreign funds to improve the city's infrastructure and accelerate the technical upgrading in both industry and agriculture," he added.

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CSO: 4020/260

FOREIGN TRADE AND INVESTMENT

SHANXI PROVINCE UNVEILS AMBITIOUS IMPORT, EXPORT PLANS

HK250413 Beijing CHINA DAILY in English 25 Mar 86 p 2

[By staff reporter Chen Zhisong]

[Text] Taiyuan -- Shanxi Province has mapped out ambitious plans for the development of its exports and imports over the next five years.

It is expected that by the year 1990, the province's exports will be worth \$400 million, which represents an average annual growth rate of 13.2 percent during the Seventh Five-Year Plan (1986-1990).

"Shanxi's exports have a lot of potential because the province is blessed with rich natural resources," Li Shuangchai, deputy chief of the Shanxi Provincial Foreign Economic Relations and Trade Bureau Office told CHINA DAILY.

Reserves of six of the province's 86 mineral deposits are the largest in China -- coal, alumina, refractory, rock, limestone, gypsum and perlite.

Its coal, farfural chemicals, and Huangqi (a Chinese herbal medicine) exports are the largest in China.

Other major export goods include Fen and Zhuyeqing liquors, Meihua brand silk filament, and the traditional medicines Kwi Ling Chi Chiew and Dingkundan.

Being a major maize producer, Shanxi is also considering expanding its maize exports. This year, it has been licensed by the state to export 500,000 tons of maize, compared to 80,000 tons in 1985.

Some of the province's major export producers will be allowed to import and export directly from this year. And export-oriented factories will receive priority in their construction. The province now has some 20 export products that are capable of earning \$1 million that of foreign exchange in one year [as published -- FBIS].

When asked about the province's import business, Li told CHINA DAILY that foreign capital and technology imports over the next five years should show no remarkable increase as the state had tightened up on spending in this field.

However, 58 key businesses have been listed for major technical modernization with foreign help during the next five years, including the Taiyuan Iron and Steel Complex, the Taiyuan Heavy Machinery Plant and the Shanxi Fertilizer Plant.

Imports of complete sets of industrial equipment will be reduced to a minimum. Attention will be focussed on the exploitation and consolidation of technology imported during the last five-year plan period.

In that time, the province established 178 co-operative projects with foreign countries, involving turnover of \$138 million.

Of the projects, 115 involved technical improvements in the coal, metallurgical, machine, textiles, chemical, electronic and light industries.

By 1985, 60 of the 178 projects had gone into operation, resulting in improved economic efficiency. A recent provincial survey on 30 of these businesses shows that they are yielding \$3 for every one invested.

"Shanxi Province is a latecomer in the import and export field. Shares in foreign capital and technology import are small compared with the coastal provinces," said Li.

To date, the province has set up import and export agencies in the cities of Tianjin, Guangzhou, Shenzhen and in the U.S., Central Africa and Hong Kong.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

ISLAMIC BANKING COMPANY--Yinchuan, 4 March (XINHUA)--China and Egypt signed an agreement today to launch a joint venture to promote banking in the Islamic world. The new firm will be set up later this year in Yinchuan, capital city of the Ningxia Hui Autonomous Region. The two parties in the venture are the Ningxia Islamic International Trust and Investment Company and the Faisal Islamic Bank of Egypt. The joint venture, named the Islamic International Investment Company, will accept savings deposits and issue shares and securities in the Islamic countries. It will also make investments there and provide consultancy and guarantee services. It will have a registered capital of 40 million U.S. dollars. [Text] [Beijing XINHUA in English 0836 GMT 4 Mar 86 OW]

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SPECIAL ECONOMIC ZONES

BRIEFS

SMUGGLING IN ECONOMIC ZONES--Beijing, 30 March (XINHUA)--China is going to tighten the flow of goods, vehicles, baggage and parcels to and from the four special economic zones. According to recent regulations promulgated by the general administration of the customs of the People's Republic of China, all the goods, vehicles, baggage and parcels going to and from the Shenzhen, Zhuhai, Shantou and Xiamen Special Economic Zones will have to go through the railway stations, cross roads, sea and airports, and post offices where there are customs offices. Places suspect of hiding smuggled goods in the zones are subject to examinations by the customs. The regulations, coming into effect April 1, make specific provisions concerning the goods flow in and from the special economic zones. This is part of the efforts to check the illegal activities to smuggle goods by taking advantage of the preferential treatment granted to special economic zones by the government. Violations against the regulations will be punished according to law and customs regulations. [Text] [Beijing XINHUA in English 0659 GMT 30 Mar 86 OW]

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CSO: 4020/260

LABOR AND WAGES

BRIEFS

SELF-EMPLOYED WORKERS START ASSOCIATION--Shanghai, 3 Apr (XINHUA)--More than 80,000 self-employed workers in service trades established an association here today. The association will work to protect the lawful rights of the members, help them overcome difficulties and provide technical training, the association president Fan Zhongyun said. The city claims to have 84,008 self-employed workers, mainly in the repair, tailoring, catering, hotel and medical services. The private hotels have a total of 10,000 beds, about one-tenth of those managed by the state and collectives. In addition, there are 500 private practitioners of traditional Chinese and Western medicines. Their business turnover was 1.1 billion yuan last year. A total of 22 smaller such associations with 71 branches have been set up at district and county levels in the city, according to the municipal Bureau for Industry and Commerce. [Text] [Beijing XINHUA in English 1442 GMT 3 Apr 86] /9604

CSO: 4020/267

POPULATION

SICHUAN REDUCES POPULATION GROWTH RATE

OW271649 Beijing XINHUA in English 1621 GMT 27 Mar 86

[Text] Chengdu, 27 Mar (XINHUA)--In just 15 years, Sichuan, China's most populous province, has reduced its population growth rate from 3.126 percent to 0.8 percent. This means 16 million fewer babies between 1970 and 1985 than would have been born without the family planning program, according to Sichuan's vice governor, Liu Chunfu.

The population of the southwest China province is 100 million.

Contraceptives are widely available at no charge in China. Doctors even make house calls to distribute them to married couples.

At the same time, Liu said, the government has begun making available a package of family planning services including pre-marriage medical examinations, sexual and fertility counseling, prenatal care and treatment for sterility.

Couples with healthy babies are more likely to accept the one-child family policy, Liu said, noting that in 1985, 90 percent of Sichuan's child-bearing-age women practiced birth control.

In Jiangbei County, where in 1983 the family planning package was first tried, 12,000 young couples have received physical and psychological examinations to make sure they were suited for marriage. "Doctors have also treated 80 married people who suffered from sterility," Liu said.

Sichuan's goal is to limit population to 120 million by the turn of the century. "This will be an arduous task," said Liu, adding that 1.2 million additional women will reach child-bearing age in each of the next 15 years.

But, Liu said, "I am optimistic. More and more couples are realizing that it is in their interest as well as China's to have just one child.

"As the economy grows and people become more educated, the population pressures are bound to diminish," he said.

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CSO: 4020/264

POPULATION

NPC DEPUTIES DISCUSS MINORITY NATIONALITIES

OW311555 Beijing XINHUA in English 1501 GMT 31 Mar 86

[Text] Beijing, 31 Mar (XINHUA)--Areas inhabited by China's minority nationalities should strive for faster economic and cultural advancement in the next 5 years to catch up with the better developed eastern areas, delegates to the National People's Congress representing these areas have stressed.

Most of China's 55 minority nationalities live in the northwest and southwest, which have difficult climates, poor transportation and backward economies. Though noted progress has been witnessed in the last few years, the west still remains underdeveloped.

During panel discussions over the past few days, the ethnic deputies and other deputies from the same areas have called for the state to give more aid to these regions to balance the progress between the east and west.

According to the draft state budget, a special grant of 800 million yuan will go to the under-developed areas this year, in addition to regular state subsidies. In 1980 the state began to grant special funds to poor regions; the total amount had reached 3.2 billion yuan by the end of 1985.

Deputies from these areas held that in addition to state help, they should rely on themselves by tapping their potential, especially their rich natural resources.

Haji Hussain Hei Boli, chairman of the Ningxia Hui (Moslem) Autonomous Region, said that ethnic areas should formulate development strategies in light of the general requirements set forth by the draft seventh 5-year plan (1986-1990) as well as by taking into account their own conditions.

He noted that since Ningxia is rich in coal but short of transport, it should transfer coal energy into electricity, expanding energy-consuming industries.

Deputies from Guizhou Province, an area inhabited by many minority nationalities, stressed that only when the province's economic growth rate is higher than the national average, will it be able to catch up with the developed provinces.

One deputy expressed the hope that the central government would help Guizhou with road, railway and hydroelectric station construction, in addition to financial support.

Governor of Yunnan Province Pu Chaozhu noted that the economic growth rate of the province in the next 5 years will be 10 percent, a little higher than the national average. Yunnan is another province densely inhabited by ethnic groups.

The governor said that the province will try to realize self-sufficiency in grain in the next 5 years, make special efforts to tap its rich deposits of non-ferrous metals, speed up resources development and promote township enterprises.

Song Hanliang, secretary of the party committee of the Xinjiang Uygur Autonomous Region, said that in addition to more grain output in the next 5 years, the region will start or expand a number of enterprises involving oil, coal, electricity and transport.

The ethnic deputies also called for the state to take effective measures to encourage more specialists and graduates of higher-education institutes in the east to come to help the poorer areas in the west.

A Tibetan deputy from Qinghai Province also urged the state to allocate more funds for educational advancement in minority-nationality areas.

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POPULATION

BEIJING SERVICES CARE FOR AGED CITIZENS

OW030304 Beijing XINHUA in English 0244 GMT 3 Apr 86

[Text] Beijing, 3 Apr (XINHUA)--Beijing now provides a package of services for its senior citizens, said a municipal government official today. As part of such services, over 20,000 groups have been organized to deliver goods, cut hair, clean rooms and repair furniture for aged people.

Some hospitals give priority to the aged, and the city has designated 17 hospitals whose staff make regular home visits to 23,000 patients, mainly aged ones.

Ten universities, three match-making offices and thousands of sports and entertainment associations have been set up for the senior citizens.

In the rural areas, said the official, there are 250 retirement homes, where 2,700 aged people are being taken care of.

Medical care, daily needs and remarriage of the aged are also taken care of by committees on the aging problem set up at the municipal, district and county levels.

According to the official, the city has 893,000 people over 60, accounting for 9.3 percent of the city's population. It is estimated that this will rise to 10.7 percent in 1990 and 14.8 percent by the turn of the century.

As a result of better living conditions and health care, the average life expectancy is up to 73.45 today, well over the 52.8 recorded in 1950, the official said.

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POPULATION

BRIEFS

COMPUTERIZED DATA POOLS--Beijing, 4 Apr (XINHUA)--China plans to set up a network of computerized population data pools, according to the HEALTH JOURNAL. The national and provincial pools should have all been built by the end of September, the journal said. [Text] [Beijing XINHUA in English 0828 GMT 4 Apr 86] /9604

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TRANSPORTATION

PRC ENDS BRITISH AIRWAYS' BEIJING-HONG KONG SERVICE

HK020931 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD Supplement)
in English 2 Apr 86 p 1

[Article by Michael Murray]

[Text] In a surprise statement issued last night British Airways announced that the Civil Aviation Administration of China (CAAC) has declined to renew the agreement for a joint service between Beijing and Hong Kong, which terminated 2 days ago on 31 March.

"British Airways, who regret the lack of advance notice, are arranging with CAAC for a short rundown period to allow the most convenient reallocation possible of those passengers already booked on this service," the statement said.

It went on to say that CAAC had given unspecified "matters of policy" as a reason for the non-renewal of the agreement. "We don't know the reason," was the more forthright comment from a British Airways spokesman contacted last night.

However, the action came on the day that Cathay Pacific [CPA] began its first scheduled air services to Beijing and raises, once again, the perception that in Beijing both British Airways and Cathay are seen to be British airlines with questions regarding their [word indistinct] rights being considered together in negotiations.

Beijing apparently does not view CPA as a domestic airline of Hong Kong which some observers feel many have interesting possibilities for Dragonair.

British Airways originally won the local traffic rights to pick up passengers in Hong Kong on its once a week London-Beijing service in December of 1983 with the agreement set to run until 31 March of this year.

However, as a result of the second round of the Sino-British aviation talks held late last year in London, Cathay Pacific obtained approval to operate two scheduled flights a week between Hong Kong and Beijing--and these services began yesterday. "We don't think there is any connection" was the comment yesterday of a Cathay spokesman.

Cathay itself has had similar problems to those currently being experienced by British Airways. Last July it launched a weekly charter service to Beijing shortly after received permission [as published] to operate an extra two charter services per week to the same destination.

However, after only one flight this permission was abruptly withdrawn, sparking speculation that it was in retaliation for the Hong Kong Civil Aviation Department's earlier refusal to grant a charter flight licence to Dragonair, which is backed extensively by Chinese interests to operate to Beijing and Shanghai.

Last November Dragonair won approval from the Air Transport Licensing Authority to operate services to eight Chinese cities though not to Beijing and Shanghai.

The company is now waiting for final approval from the Chinese authorities before commencing operations on these services.

"It is difficult for us to comment on today's announcement because regrettably we have not been informed by the Civil Aviation Department about the contents of the various commercial agreements which allow British Airways and Cathay Pacific to operate between Hong Kong and China" said Stephen Miller, general manager of Dragonair when contacted last night.

Yesterday's British Airways statement said that the CAAC had taken its decision "although the joint service was commercially very successful for both airlines," a reference to royalty payments made by British Airways to CAAC which are said to have been substantial.

And, as the statement made clear the decision not to renew was only made known at a very late date with sources suggesting that British Airways was only given 4 days' notice of the termination of the agreement.

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TRANSPORTATION

STUDY EXAMINES FEASIBILITY OF ZHONGSHAN PORT

HK310408 Hong Kong SOUTH CHINA MORNING POST in English 31 Mar 86 p 4

[From the "South China Beat" column by Julina Chan: "Zhongshan Bidding for Major Cargo Port Status"]

[Text] China is studying the feasibility of developing Zhongshan into a major harbor in a bid to alleviate congestion and severe backlogs at the nearby port of Whampoa in Guangzhou. A study is expected to be completed by June. It is being conducted by a team of researchers at Tianjin University and will focus on the navigability of the Pearl River estuary at Hengmenkou.

If this 1-kilometer section of river can be dredged to allow vessels of up to 5,000 tonnes to pass, Zhongshan could then handle up to two million tonnes of cargo each year.

Zhongshan officials have expressed keen interest in the project and are pinning high hopes on Zhongshan becoming China's major cargo port for trade with Southeast Asian countries.

Although the study is not yet complete, two new 5,000-tonne piers are already under way and one was completed earlier this year.

The director of the Zhongshan harbor district management committee, Mr Li Lipai, said even if the study's findings are negative, the piers will still be used to handle the 3,000-tonne vessels which already pass through Hengmenkou.

About 50 million yuan (about HK\$125 million) was invested in new harbor facilities last year, including development of a 500-meter coastline, the 5,000-tonne pier, three 1,000-tonne piers and a ferry jetty.

Additional new facilities include a customs building, border checkpoints, an integrated service building and a wharf. And within the harbor, 17 buoy locations have been established that can handle about 600,000 tonnes of cargo each year.

Harbor ferry services are also being upgraded.

About 210,000 passengers used the ferry services last year and traffic is expected to reach 300,000 this year.

The number of passengers handled in Zhongshan is now second only to Zhoutouju port in Guangzhou, which is the mooring area for high-speed hover-ferries plying between Hong Kong and Guangzhou as well as barges and domestic ferries.

Under the original plans, 42 sq km of land near the harbor was to have been developed for various uses.

But with China's current crackdown on foreign exchange expenditure, this project has been scaled down to 33 sq km. To date, only about 3 to 4 square kilometers have been developed.

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TRANSPORTATION

BRIEFS

NEW WATERWAY JOINS EAST, SOUTHWEST--Hefei, 3 Apr (XINHUA)--The opening of China's longest inland waterway has brought China's east and southwest regions closer together, according to an official in Thiu Anhui provincial capital today. A fleet of cargo boats will serve the two places at irregular intervals in the immediate future, the official said. The economic boom over the past few years has expanded commodity circulation, but land transport could not keep up with the growing cargo movement. The opening of this inland waterway route is a part of the government effort to ease the transport crunch, the official said. This new route is also expected to cut shipping costs, he said. The new stretch has added 2,980 km to the 19,000 km of existing inland waterways. It connects the Jinsha River, Yangtze River, the Grand Canal, Gaoyou Lake, Hongze Lake and Huaihe River--the only inland waterway from China's southwest to the east. [Text] [Beijing XINHUA in English 1648 GMT 3 Apr 86] /9604

CSO: 4020/265

TAIWAN

U.S. URGED TO SEND MORE SALESMEN TO TAIWAN

OW251453 Taipei CNA in English 1435 GMT 25 Mar 86

[Text] Taipei, 25 Mar (CNA)--American traders were urged Tuesday by an economic planning official of the Republic of China to send their salesmen to Taiwan in order to sell more U.S. products in this country.

Chao Yao-tung, chairman of the Council for Economic Planning and Development, told a group of U.S. journalists that American salesmen can hardly be seen in Taiwan. On the contrary, he said, Japanese salesmen are very active here. In Taipei alone, there are hundreds of Japanese salesmen.

"How can we buy more American products if your salesmen don't come here?" Chao asked the American news reporters.

He said that, if American traders don't send their salesmen here, it would be unfair to blame this country for not buying more American products.

The problem of the trade imbalance between the two countries is attributable to inadequate marketing and sales promotional efforts on the part of the United States, Chao said. The problem is also attributable to the difference in the industrial structure and the market demand of the two countries, he added.

Chao told the American press that the Republic of China Government intends to buy more American products for its 14 major reconstruction projects. "But you have to send more salesmen here," he told the reporters.

Japanese companies have sent "lots and lots" of salesmen here trying to sell their products for the 14 major reconstruction projects. "We have seldom seen American salesmen," he said.

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CSO: 4020/268

TAIWAN

PREMIER YU URGES U.S. TO EXPORT HIGH TECHNOLOGY

OW250421 Taipei CNA in English 0238 GMT 25 Mar 86

[Text] Taipei, 24 Mar (CNA)—Premier Yu Kuo-hwa has called on American manufacturers to adopt a more active attitude toward opening the markets here and export more high technology products to the Republic of China in a joint effort to balance the trade between the two nations.

Yu made the call during a visit to the 1985 American Products Exhibition which opened Monday at the China External Trade Development Council's exhibition complex at Sungshan Domestic Airport in downtown Taipei.

Yu said after the visit that he had noticed that most of the American products and displays at the show are consumer products. The domestic market is too small to accommodate a large quantity of these products, he said.

While the nation is trying vigorously to upgrade its industrial structure, it needs as much capital high technology machinery and equipment it can to attain this goal, Yu said.

Although the government is sincere in reducing its huge trade surplus with the United States, American manufacturers should also adopt a more active presence in opening their markets here, he said.

Yu said he believes more American businessmen will be interested in taking part in similar trade exhibitions here in the future after they gain a better understanding of the market potential here.

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CSO: 4020/268

TAIWAN

VALUE ADDED BUSINESS TAX INTRODUCED 1 APRIL

OW010725 Taipei CNA in English 0246 GMT 1 Apr 86

[Text] Taipei, 31 Mar (CNA)--Finance Minister Robert C. Chien said Monday that he hopes all taxpayers, including businessmen and industrialists, in the nation will fully realize the importance of the Value-Added Business Tax, to be put into practice starting 1 April. He asked them to render their support to this watershed taxation reform.

He appealed to domestic manufacturers and retailers to readjust the selling prices of their products by deducting the existing Business Tax, Stamp Tax and Commodity Tax that will be excluded under the new business tax system and then, based on the selling prices, charge the consumer the 5 percent Value-Added Business Tax on behalf of the government.

Chien also appealed to the consuming public to ask for unified invoices every time they make a purchase so that businessmen and manufacturers will not be able to avoid tax payments.

The minister stressed that the new tax system, in fact, renders duty-free treatment of capital goods and, therefore, reduces the tax burden on investments. This will, in turn, enhance domestic manufacturers' investment willingness and accelerate economic recovery, he added.

The Finance Ministry analyzed that in the initial stage of the new tax system, the consumer prices are expected to increase by an average 2 percent. The two consecutive price cuts on domestic oil products, which have reduced production costs on the part of manufacturers, are also helpful to prevent consumer prices from fluctuating sharply.

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CSO: 4020/268

TAIWAN

BRIEFS

IMPORTS OF U.S. WINE, CIGARETTES--Taipei, 28 Feb (CNA)--Finance Minister Robert C. Chien said Friday that the government's decision to allow imports of American cigarettes and wine is aimed at reducing the trade imbalance now in favor of the Republic of China, and this will not affect the current state monopoly of alcoholic beverages and tobacco products. Chien made the statement in reply to an interpellation by Legislator Chen Lieh at the Legislative Yuan. The ROC Government has not considered whether to permit imports of these products from other countries, he said. The American side will decide the kinds and quantity to be exported to this country. However, the Taiwan Tobacco and Wine Monopoly Bureau of the Republic of China will serve as the agent between importers of the products and the American suppliers, Chien said. [Text] [Taipei CNA in English 1354 GMT 28 Feb 86] /9604

PRICE FLUCTUATIONS WITH VAT--Taipei, 1 Apr (CNA)--Concerned about possible fluctuations of commodity prices in this nation after the value-added tax [VAT] system was put into force on 1 April, Premier Yu Kuo-hwa called Finance Minister Robert C. Chien Tuesday and asked him to take all necessary measures to prevent the commodity prices from going up excessively. An official with the Finance Ministry said his ministry has been watching closely changes in the prices of major commodities in this nation since the new tax system became effective Tuesday, and will continue to do so until the prices become stabilized. The Finance Ministry is doing its best to understand the market situation through the statistics compiled by the Economics Ministry's commodity prices supervisory board and the information provided by the tax office branches around the island, he said. [Text] [Taipei CNA in English 0235 GMT 2 Apr 86] /9604

NT DOLLAR RISE OPPOSED--Taipei, 26 Mar (CNA)--Chung Shih-yi, director general of budget, accounting and statistics, said Wednesday he is opposed to a drastic appreciation of the New Taiwan Dollar's exchange rate against the U.S. dollar. The big rise of the New Taiwan dollar's value will seriously affect the nation's exports and economy, he said, answering an interpellation of Legislator Hsiao Jui-cheng at the Legislative Yuan Wednesday. The New Taiwan dollar's exchange rate against the American dollar for the 1987 budget has been set at 39.5 to 1 by referring to the

level of the time the budget was compiled, but many scholars forecast recently that the New Taiwan dollar's value will rise to a rate of 36 to U.S.\$1, he said. As a result, he said, the government's foreign exchange spendings in the future will be saved. To maintain competitiveness of the nation's exports and economic development, the New Taiwan dollar's value should not be appreciated sharply, he said. [Text] [Taipei CNA in English 0301 GMT 27 Mar 86] /9604

ECONOMIC GROWTH RATE--Taipei, 28 Mar (CNA)--Economics Minister Lee Ta-hai said Friday that the economic growth rate for the Republic of China in 1986 will definitely exceed 7 percent judging from the various indications that national and world economies have been on the rise again since late last year. He said he hopes that domestic businessmen and industrialists will renovate their out-of-date production facilities and increase new investments, taking advantage of the long-awaited economic recovery. Lee noted that he has always felt that "we should be neither too pessimistic nor too optimistic about national economic development." For instance, he told the press not to be pessimistic about the ROC's economic prospects when the national economy was at its low ebb last year. Although the ROC economy is expected to grow by more than 7 percent this year, the minister reminded domestic businessmen and industrialists that they should renovate production facilities and make new investments at a time when the economy is on the rise so that they will be able to meet future challenges. [Text] [Taipei CNA in English 0235 GMT 29 Mar 86] /9604

TAIWAN 11TH LEADING EXPORTER--Singapore, 28 Mar (CNA)--The Republic of China has risen to the world's 11th leading exporting country in 1985. According to a General Agreement on Tariffs and Trade (GATT) report on world trade in 1985, ROC's export volume is second only to Japan in Asia. Singapore retained its position as the world's 20th leading exporter of goods last year. Ahead of ROC on the list of the world's leading exporters were the United States, West Germany, Japan, France, the UK, Canada, the USSR, Italy, the Netherlands, Belgium-Luxembourg. The GATT report said "developing areas in Southeast Asia are a prominent example of the relatively poor trade performance of developing countries last year." It said the value of aggregate exports for eight Asian countries--the ROC, Indonesia, Hong Kong, South Korea, Malaysia, the Philippines, Singapore and Thailand--fell about 2 percent while total imports dropped 6 percent. This compared unfavorably with 1984 growth rates of 17 percent for exports and 3 percent for imports. [Text] [Taipei CNA in English 0328 GMT 29 Mar 86] /9604

CSO: 4020/268

HONG KONG

EEC SUPPORTS HONG KONG MEMBERSHIP IN GATT AFTER 1997

HK300600 Hong Kong SOUTH CHINA MORNING POST in English 30 Mar 86 p 3

[Article by Chris Evans]

[Text] The European Economic Community supported Hong Kong to become a full member of the General Agreement on Tariffs and Trade after 1997, a senior EEC official said last night.

Mr Alex Schaub, chief of cabinet to the EEC's Commissioner for External Relations and Trade Policy, said efforts were being made by the Sino-British Joint Liaison Group to pursue the matter. He said he was optimistic that Hong Kong would become an independent member of GATT and the European Community would support the move.

Mr Schaub was speaking to reporters at Kai Tak Airport before leaving Hong Kong following an 8-day visit. With him was a Dutch member of the European Parliament, Mrs Yvonne van Rooy.

Mrs van Rooy said the European Parliament held an important debate last year and concluded it would be in the interest of Hong Kong as well as its trading partners in the European Community if Hong Kong remains a member of GATT.

During their Hong Kong visit they held talks with senior government officials, Umelco [Unofficial Members of Executive and Legislative Councils] members as well as trade and industrial leaders on various aspects of trade, economy and political development in the territory.

She said Europe was now worried about an increasing protectionism tendency of the United States and hoped that a more liberal attitude of the EEC could have an influence on the U.S. position.

The advanced textile technology Hong Kong possesses has put the territory in a more competitive position, she said. But she still hoped that there would be a more liberal trade policy between developed and developing countries.

Mr Schaub said the EEC's trading policy now pointed to a more liberal and flexible Multi-Fibre Arrangement when it was renewed. He said they hoped to phase out the MFA.

But he warned that the overall results not only depended on the European Community but other major trading partners such as the United States.

HONG KONG

HONG KONG REGRETS U.S. REDESIGNATION OF PREFERENCE CATEGORIES

HK030626 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement)
in English 3 Apr 86 p 3

[Article by Peter Robinson]

[Excerpt] The Trade Department last night expressed disappointment that only one item has been redesignated under this year's review of the U.S. Generalised System of Preferences [GSP] and said it would fight on for the redesignation of further items.

GSP aims to assist developing territories in the export of certain goods by giving them duty-free status or other preferential treatment.

Hong Kong's category--switchboards, control panels and certain electrical parts, U.S. imports of which amounted last year to U.S.\$64 million--has regained eligibility for duty-free GSP status. The changes take effect from 1 July.

However, two categories--scissors, shears and blades valued at under 50 cents a dozen and tin-plated household and sanitary goods--are no longer eligible for duty-free status. The value of U.S. imports of these two categories last year was \$67,000 and \$7 million, respectively.

The Trade Department said requests for a further \$515 million of trade in items previously excluded, but which are now within the limit, have not been redesignated.

Last night the department's assistant director of trade for North America, Robert Footman said: "We are naturally disappointed that only one item was redesignated. We will make further requests for redesignation of relevant items at an appropriate time."

The U.S. reviews its GSP annually, under which import items that comprise more than 50 percent of total imports or \$70 million, are denied duty-free status. The review also considers redesignating items which have exceeded these limits in previous years but which now are within the required levels.

The U.S. President has discretionary authority over which items to reinstate, the Trade Department said. His decision is believed to take into consideration a country's level of development, its competitiveness in a specific product and the overall economic interest of the United States.

Total imports of GSP items from Hong Kong last year amounted to \$3.726 billion, of which \$1.208 billion was eligible for duty-free GSP status.

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CSO: 4020/269

HONG KONG

FEBRUARY EXPORTS SHOW 11 PERCENT DECLINE

HK280203 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD Supplement)
in English 28 Mar 86 p 1

[Text] Hong Kong's February domestic export figures were 11 percent down on those for 1985, according to provisional trade figures released yesterday by the Census and Statistics Department. The value of domestic exports stood at \$8,347 million, \$1,033 million down on 1985, while the value of re-exports, at \$6,876 million, was 8 percent or \$561 million lower.

Taking domestic exports and re-exports together, the value of total exports, at \$15,223 million, was 9 percent or \$1,594 million lower than a year earlier. Meanwhile, the value of imports grew by 13 percent or \$2,017 million to \$16,983 million.

In consequence a visible trade gap of 10.4 percent was recorded in February 1986, compared with a visible trade surplus in February 1985 which was equivalent to 12.4 percent of the value of imports.

Putting the month's trade figures into context, a government spokesman pointed out that the value of total exports for the 12 months ending February 1986 was \$232,527 million, made up of domestic exports of \$128,212 million and re-exports of \$104,315 million. Compared with the 12 months ending February 1985, the value of total exports and of re-exports grew by 1 percent and 17 percent, respectively, while the value of domestic exports fell by 9 percent.

Over this period the value of imports grew by 3 percent to \$233,124 million. The visible trade account thus recorded a deficit of \$597 million, or a trade gap of 0.3 percent. This was in contrast to the previous 12-month period when there was a visible trade surplus of \$2,892 million, which was equivalent to 1.3 percent of the value of imports.

Commenting on these figures a government secretariat spokesman said that because trade statistics for the beginning months of a year are usually distorted by seasonal factors, it was more useful to consider together figures for December, January and February.

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CSO: 4020/269

HONG KONG

RADIO BEIJING ON HONG KONG'S FINANCIAL CENTER

OW011439 Beijing XINHUA Domestic Service in Chinese 1150 GMT 30 Mar 86

[Excerpts] In this program: "Letterbox on International Issues," we would like to introduce the world's four major financial centers at the request of (Lu Huanqi) and others, students of the senior middle school attached to the (Chaoyi) State Farm in Dali County, Shaanxi Province. The four major financial centers are London in England, New York in the United States, Zurich in Switzerland, and Hong Kong in China.

Now, let us talk about China's Hong Kong. After the 1970's of the 20th century, Hong Kong became one of the world's financial centers. It is located at the center of the Pacific Region in Asia. It has close ties with various Asian countries, and good transportation and communications facilities to connect it with Japan and various European countries. Due to the time difference, Hong Kong's market opens when markets in London and New York close. Hong Kong is close to China's interior provinces. As the tempo of China's modernization drive quickens, China seeks to strengthen its economic ties with various countries throughout the world, and capital from all parts of the world has started to pour into Hong Kong. These nations make use of Hong Kong's particular conditions and geographical location to do business with China's interior provinces. In face of world competition, Hong Kong continues to develop its tertiary industry, which needs little space but earns more foreign exchange. It turns out manufactured goods of high quality and more variety, thus greatly promoting trade business. Its tremendous developments in industry, commerce, and trading in turn bring about good business in other fields such as banking, insurance, and others. Thus, Hong Kong plays an increasingly important role in promoting all types of economic activities in the Pacific Region in Asia. There are many banks in Hong Kong. About 60 percent of the 100 largest banks in the world set up branches or offices in Hong Kong.

Hong Kong has already become one of the four world gold markets with the other three markets in London, New York, and Zurich. Nearly a million ounces of gold are bought and sold in Hong Kong every day.

The signing of the Sino-British Joint Declaration on the Question of Hong Kong has brought about even more stable developments in Hong Kong's financial circles. The total amount of deposits and loans is constantly on the increase. Hong Kong's status as a world financial center will be greatly strengthened.

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CSO: 4006/893

HONG KONG

HONG KONG EXAMINES EFFECT OF PRC ECONOMIC REFORMS

HK300530 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement)
in English 30 Mar 86 p 1

[Article by Ann Nichols]

[Text] China's economic reforms, outlined last week by Premier Zhao Ziyang, could have both a stimulating and shattering effect on Hong Kong's trade and industry. Some sectors of Hong Kong business, such as those dealing in sophisticated technology or engaged in tourism, seem set to benefit from Beijing's goals. Less fortunate are likely to be companies involved in the export of consumer durables to China. And particularly affected will be those providing goods and services to the construction industry.

Mr Zhao warned, in a report to the National People's Congress in Beijing, that China would strictly limit the import of consumer durables. "We must strive to expand production of import substitutes," he said. He made it clear that for the next 5 years China would trim its spending in the construction industry, a sector that has enjoyed runaway growth recently, much to the benefit of Hong Kong companies.

But Hong Kong's financial experts have generally welcomed Mr Zhao's initiative. Mr Willie Lamarque, of the China Trading Division of Jardine Matheson, called it a "very sensible and good plan," which could, however, have ill-effects on Hong Kong in the short-term. Both he and Mr Lawrence Mills, director general of the Federation of Hong Kong Industries, said it proved China's open-door policy was still intact.

In outlining China's seventh 5-year plan, Mr Zhao said the country would continue its economic reform program while putting the brakes on the actual speed of growth.

Economic reforms have increased output and boosted living standards. But there has also been a massive drop in foreign exchange reserves, widening trade deficits and a rise in inflation to 12 percent. Now, in an effort to slow down runaway growth, Mr Zhao has called for only a modest increase in both industrial and agricultural output and also wants a number of restrictions.

Spending on capital construction is to be trimmed and there are to be strict limits on the import of consumer goods, such as durables, general processing equipment and assembly lines that use imported parts and accessories. This is bound to affect Hong Kong's export and re-export trade with China, which has steadily increased over the past few years. And it will also mean that Hong Kong will never again enjoy a boom year like 1984-85.

Only last week Mr Jack Tang, chairman of the Hong Kong General Chamber of Commerce, described the territory's export market to China last year as "the brightest spot in an otherwise unremarkable export performance."

In his statement on 1985 he said that with declines in export trade to almost all principal markets, it was fortunate for Hong Kong that the Chinese market continued to offer strong demand throughout the year even though the Chinese authorities were obliged by spring to stem the tide on consumer goods in order to conserve foreign exchange for essential goods.

Domestic exports from Hong Kong to China this January and February were down 17.6 percent and 28 percent respectively. Re-exports dropped by 31 percent and 34 percent.

Mr Tang said: "Until the middle of last year our exports to China were very good and then there was some drop in the second half of the year, so it has been expected that exports to China will go down. It is not much of a surprise but compared to 2 years ago the figures have not decreased."

Mr Tang is not unduly worried by Beijing's strategy for the next 5 years because he believes export figures will benefit from the markets with the United States and Europe, which after a slump, are now showing signs of picking up again.

But there was good news for Hong Kong from Beijing.

Apart from further relaxation of direct government control over economic enterprise, which makes individual enterprises more accountable for profitmaking, Mr Zhao wants to expand tourism, international air and marine transport and insurance business and will emphasize the import of computer software, advanced technology and industrial equipment.

Foreign investment and loans will be used for energy and raw material industries, transportation and communications. And foreign investment will also be used to upgrade the machine-building and electronics industries and increase production of export goods.

Overall, the whole package has been welcomed by Hong Kong's business community, who see it as a sensible move, putting the stamp of approval on the open door policy.

Mr Lamarque sees the 5-year plan as both "very sensible and welcome." He said: "Firstly, it is very good for Hong Kong to have a coherent plan published in the first place. Usually the details are not known until a year or so has already gone by, so this time it will be very helpful for Hong Kong traders to prepare themselves accordingly."

"It is also a very sensible and good plan and if it is good for China then it must be good for Hong Kong in the long run."

But Mr Lamarque does [words indistinct] Hong Kong will be affected in the short term simply because of the recent boom year. "That boom took everyone by surprise," he said. "No one really expected it and it obviously happened without central government approval. Responsibility for selling was given to local levels, but what the government did not reckon with was the sheer entrepreneurism of the people in the southern provinces of China."

"It was a one-off bonanza which got out of hand and should never have happened. The government has moved fairly promptly to stop it and if you can forget about that boom then you will find that business with China is pretty steep."

After spending about 10 days every month in China, Mr Lamarque predicts that the volume of Hong Kong trade with its neighbors will go on the up and up. "The message is very clear," he said. "Despite the rumblings in the press the open-door policy is here to stay."

This belief is shared by the Federation of Hong Kong Industries' Mr Lawrence Mills. He sees the new plan as good news. "It is an indication that China intends to assume its present open-door policies and intends to get a very reasonable control on them," he said.

Mr Mills believes the new plan is a "sensible adjustment" to the current economic situation which any responsible government will take. "But one presumes there will be some short-term impact with Hong Kong suffering a little bit in the re-sales and export trade," he said. "But I am sure some items will continue to be exported anyway."

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HONG KONG

LIAOWANG ON FINANCIAL TIES BETWEEN PRC, HONG KONG

HK281258 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 11, 17 Mar 86 p 2

[Article by Hua Quan [5478 3123]: "Financial Ties Between China's Mainland and Hong Kong"]

[Text] Over the last few years, with the expansion of China's financial links with other countries, Hong Kong, acting as a bridge between Chinese and foreign financial institutions, has played an active role in raising capital and finding trading partners and prospective collaborators in investment for the organizations on China's mainland. At the same time, Hong Kong is steadily becoming a base for world-class banks to expand their operations in China and the Asia-Pacific region.

I.

In Hong Kong there are now 143 licensed banks, 315 deposit-taking financial companies, and 119 representative offices of foreign banks. Many banks have set up their own China business departments, striving to expand their China-related operations.

Quite a few banks in Hong Kong have made direct investments in China's mainland or extended credit directly to enterprises on the mainland either by themselves or in cooperation with their clients. Some banks have financed Hong Kong enterprise institutions by loans and helped them make direct investments in the mainland. The Hong Kong and Shanghai Banking Corporation set up its China business department in 1979. In the past 6 years, the bank has provided its clients with loans worth about US\$1 billion in all to help the latter undertake more than 200 trading and investment projects on the mainland. From 1978 to June 1985, to support construction on the mainland, the Bank of China group granted China more than HK\$7 billion in loans.

Syndications are one of the main modes of credit adopted by the banks in Hong Kong in extending loans to the mainland. According to [word indistinct] of interested quarters, in 1984, Hong Kong organized loans worth a total of HK\$1.95 billion through syndications for the mainland, and [word indistinct] such loans amounted to more than HK\$3 billion. Since syndications are group

loans raised jointly by a number of banks or financial institutions, they involve large amounts of money and high costs and have rather long credit periods. Therefore, they are relatively suitable for the large-sized construction projects on the mainland. At present, to invest in such large-sized projects as the Pingshuo coal mine in Shaanxi Province, the Shenzhen Daya Bay nuclear power plant, and the Shajiao thermal power plant, planners are considering raising funds through syndications arranged in Hong Kong.

Quite a number of banks, financial companies, and commercial firms in Hong Kong successively set up or strengthened their leasing business departments or formed leasing companies with agencies on the mainland to help the mainland enterprises import technology and equipment in large quantities by using the leasing method. It has been reported that more than 10 leasing companies using Chinese and foreign investment have been registered and set up in China. They include the Beifang International Leasing Company and the Zhonglian International Leasing Company, in which Hong Kong firms are partners. Now more and more Hong Kong-based leasing companies or leasing business departments are focusing their operations on the Chinese market. In addition, some institutions from the mainland have begun to raise funds through the Hong Kong stock market. Last year, the China International Trust Investment Corporation issued public bonds totaling HK\$300 million in Hong Kong and the funds thus raised more mainly invested in China's industrial sector.

Over the last few years, many banks in Hong Kong have provided the mainland with services apart from credit and banking, such as suggesting their Hong Kong and overseas clients form cooperation relations in trade and investment with the mainland institutions concerned, providing consultancy services to Chinese-foreign enterprises, including acquiring information about the client's capital funds and helping carry out feasibility studies on some investment projects, and facilitating the flow of financial information between China and other countries, and helping the mainland enterprises use and handle foreign exchange funds.

II.

The financial links between China's mainland and Hong Kong are still in a state of preliminary development. A few years ago, China's foreign exchange reserves increased year by year and it did not need to raise too much capital on the overseas market at the time. Meanwhile, the present levels of China's national income and production are still not high; therefore, in raising funds China has relied mainly on credit from the seller, loans from governments or international organizations, and mixed loans from governments and commercial banks. These loans belong to the category of low-interest and preferential "soft loans." China's demand for relatively costly commerce-related funds is still handicapped by its present management skills and ability to repay. Moreover, China is a little unfamiliar with the ever-changing operations of financial institutions and markets on the international money market. Because of all these factors, China has adopted a fairly cautious attitude in forming and developing financial links with other countries.

With the continued implementation of the policy of opening up to the outside world, China needs to vigorously import foreign capital through various methods so as to meet the needs of the state for carrying out its four modernizations program and to make up for its foreign exchange reserve shortages. Such being the case, the financial links between the mainland and Hong Kong have been strengthened.

In establishing financial links with China's mainland, Hong Kong is superior to other major world money markets in some aspects. Industrial experts believe that judging from the experience of other countries in the Asia-Pacific region, about 50 percent of the funds they raise overseas come from the nearby financial centers--Hong Kong and Singapore. Hong Kong borders the mainland and most of its people in the financial and economic communities and professionals of all types are Chinese. They have very many links with the mainland and are quite familiar with the political and economic situation there. Therefore, Hong Kong has more favorable conditions in terms of geological position and human resources. Quite a number of Chinese-capitalized financial institutions have for many years formed extensive business relations in Hong Kong and acquired a deeper understanding of, and participated more frequently in the Hong Kong money market, thus turning out a number of qualified personnel who are well-versed in their fields. All this is helpful to the further expansion of the financial links between China's mainland and Hong Kong.

Extending various commercial loans to the mainland is a channel for the Hong Kong banking community to open up new avenues for their capital. As far as the scope of operation is concerned, the banks in Hong Kong have very large amounts of bank deposits and loan funds. At the end of November 1985, the total volume of bank deposits amounted to HKD439.569 billion, up 19 percent over the figure at the end of the previous year, and the total volume of loans extended by banks came to HKD446.165 billion, up just 6 percent. The increase in bank loans was far less than that in bank deposits. There is still much room for the banks to extend credit. Interested parties believe that with the completion of economic readjustments, this year China will give more opportunities to the Hong Kong banks.

Industrial experts suggest China develops its financial links with Hong Kong in the following ways: 1) Select preferential and low-interest commercial loans. 2) Use syndications to raise medium-term capital for large projects. 3) Issue commercial papers to raise funds. 4) Issue bonds to raise long-term capital. 5) Raise funds through the stock market.

III.

At present the departments concerned on China's mainland have repeatedly suggested efforts be stepped up to use overseas capital markets. Some localities on China's mainland have raised funds in renminbi by issuing shares. Securities firms have begun to emerge in Shanghai and the Shenzhen special economic zone. Efforts are being stepped up to enact the company law and the enterprise

bankruptcy law. Industrial experts maintain: With the gradual improvement of financial laws and regulations and the enactment of rules and regulations concerning the issuance of shares and bonds, some profit-making enterprises which enjoy a high reputation in international markets and which have bright prospects for further development could raise funds through a listing in the Hong Kong stock market.

With regard to the raising of funds by the mainland organizations and enterprises in Hong Kong, industrial experts suggest making efforts to catalog and make complete the related data of mainland enterprises, in particular serialized statistical data, so that they can be distributed among investors for reference use when the enterprises issue shares or bonds in the Hong Kong stock market; closely watching the changing trends of international money markets, striving for the most favorable fund-raising terms, and protecting and increasing the returns from the use of funds as far as possible; and training as quickly as possible a number of personnel well-versed in modern banking and financial knowledge, since the financial system of China's mainland is vastly different from those of Hong Kong and other countries.

Interested parties hold: Hong Kong financial market is inferior in size to those of London, New York, and Tokyo, particularly in terms of the long-term capital market. Hong Kong can hardly fully or mainly meet the mainland's needs for funds. However, with its favorable conditions in geographical position and human resources, Hong Kong will continue to serve as an indispensable link in China's efforts to strengthen its financial links with other countries. The financial links between China's mainland and Hong Kong will develop more intensively and extensively on the basis of what has been achieved so far.

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CSO: 4006/893

HONG KONG

HONG KONG, PRC GOVERNMENTS AGREE ON CONTROL OF KA WAH BANK

HK230420 Hong Kong SOUTH CHINA MORNING POST in English 23 Mar 86 p 1

[Article by Jack Spackman]

[Text] The Hong Kong and Chinese Governments yesterday officially came to the rescue of the troubled Ka Wah Bank, a decision that could cost taxpayers more than \$600 million.

In an unannounced ceremony, the financial secretary, Sir John Bremridge, and a senior Chinese official signed an agreement under which the China International Trust and Investment Corp. [CITIC] will take control of the bank. But while CITIC will spend \$350 million to buy into the bank, this apparently does not include any responsibility for its doubtful debts. This means that while the bank will try to trade out of its difficulties, the government is acting as guarantor to Ka Wah's many creditors, raising the possibility of a massive Exchange Fund payout if the scheme does not succeed.

Sir John last night declined to comment on the agreement, saying only: "I can confirm that an agreement was signed but I can say no more than that."

The deal is still subject to approval by the Supreme Court, the Commissioner for Securities, the Stock Exchange and the bank's shareholders.

Signing on behalf of CITIC at yesterday's ceremony was its general manager, Mr Xu Zhaolong, who arrived in Hong Kong last week from Beijing specifically to complete the first formal step in the takeover. Under the agreement CITIC will acquire 92 percent of the equity of the bank, which has 31 branches in Hong Kong. At the same time, the Hong Kong Government is providing a guarantee to cover the existing loans of Ka Wah Bank and its subsidiary, Ka Wah International Merchant Finance.

Banking sources estimate that the outstanding loans run to more than \$600 million but the government refuses to confirm this. This is because the loans will be covered by a guarantee from the Exchange Fund, source of Hong Kong's official reserves.

Government officials adamantly refuse to discuss any matters dealing with the Exchange Fund, including the value of its deposits which are estimated to be about \$30 billion.

The only announcement on yesterday's agreement came from the NEW CHINA NEWS AGENCY which confined itself to a brief statement which said the agreement dealt with "issues linked to the rescheduling of Ka Wah Bank."

The next formal step in the takeover will be the issue of a document outlining the proposals and calling an extraordinary meeting at which shareholders will vote on the rescheduling. Because Ka Wah is listed on local stock exchanges, shareholders must approve the takeover before it can go through.

The bank already has announced that Hong Kong-based directors, who control 42 percent of the ordinary share capital, have agreed to vote in favor of the proposals.

The document on which shareholders will vote is expected to be ready in about 6 weeks.

Other formalities which must be completed before the takeover goes through include the approval of the Commissioner for Securities and the Stock Exchange of Hong Kong.

Shareholders also must approve a proposal which will result in the par value of Ka Wah's existing shares being written down from their present value of \$1 to 5 cents. This has been made necessary, according to Ka Wah directors, because provisions for bad and doubtful debts now exceed the bank's assets.

One problem which could yet surface concerns the extent of CITIC's holding in the bank. Under stock exchange rules in Hong Kong, at least 25 percent of a company's shares must be held by the public for it to qualify for a public listing. This rule will be breached if 92 percent of Ka Wah's shares remain with CITIC. The stock exchange chiefs either must agree to an exception being made in this case or CITIC will have to take steps to place some of the shares back with the public.

It has not yet been confirmed if the Low family of Singapore, major shareholders in Ka Wah, were represented at yesterday's signing ceremony.

The problems at Ka Wah Bank surfaced mid-way through last year following a spate of rumors about some of Hong Kong's smaller banks.

In June last year both the Hong Kong Bank and the Bank of China expressed concern about the effect of such rumors and, following discussions with the Commissioner of Banking, the two banks announced that a "substantial line of credit" had been made available to Ka Wah. Banking sources suggested the credit line for Ka Wah amounted to \$1 billion.

The route taken by the government and the Chinese authorities to rescue Ka Wah Bank has circumvented any need to seek Legislative Council approval. This is in marked contrast to the way the rescues were handled for the Hang Lung Bank, the Overseas Trust Bank [OTB] and the Hong Kong Industrial and Commercial Bank, a subsidiary of OTB.

HONG KONG

PRC OFFICIALS TAKE OVER MANAGEMENT OF KA WAH BANK

HK020929 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD Supplement)
in English 2 Apr 86 p 1]

[Text] Mr Nelson Tsao Youngzaain, general manager of Sin Hus Trust, Savings and Commercial Bank, yesterday confirmed that four representatives from the Bank of China and the China International Trust and Investment Corporation (CITIC) had taken over the management of the Ka Wah Bank. However, he emphasised that the Ka Wah Bank will not become a part of the Bank of China (BOC) group.

He added that a formal agreement between Ka Wah Bank and CITIC regarding the capital injection of \$350 million by the latter, is scheduled to be signed in 2 to 3 weeks time.

Mr Tsao estimated that the size of Ka Wah's doubtful loans was about \$500-\$600 million, most of which were secured and extended to Malaysian clients.

With local deposits growing steadily lately, he said CITIC intended to further expand the retail and wholesale services of Ka Wah Bank.

Apart from Mr Tsao, the other three who have joined Ka Wah's management are representatives from the Po Sang Bank, CITIC and China Investment and Finance, a CITIC subsidiary.

The above agreement was preceded by an earlier one between the Hong Kong Government and CITIC whereby the government will guarantee the recoverability of Ka Wah Bank's loans with backup from the Exchange Fund. As this decision could cost the taxpayers more than \$600 million and represents another possible use of the Exchange Fund, it has come under fire from Legislative Councillors.

Under the takeover proposal, CITIC will inject \$350 million for a 92 percent stake in Ka Wah Bank, pending endorsement from the bank's shareholders, approval from the court and the Securities Commission.

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HONG KONG

BANK OF CHINA PLANS MORE CERTIFICATE OF DEPOSIT ISSUES

HK250433 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD Supplement)
in English 25 Mar 86 p 1

[Text] The Bank of China (BOC) plans to issue more certificates of deposit [CD] and other instruments to tap the local capital market and also increase its presence in the local secondary market. This was said yesterday by Mr Zhang Xueyao, the bank's Hong Kong general manager.

At the signing ceremony yesterday for a CD issue of U.S.\$100 million, Mr Zhang said the issue was very well received and would be used for general funding purposes.

The issue was lead managed by China Development Finance Co (HK) and Citicorp International.

Mr Philip Tose, deputy managing director of Citicorp International, said the issue was historic on two points: This was the first time the BOC, Hong Kong, had made a U.S. dollar fixed rate CD, [and] that this was also the first issue of such magnitude for any bank on the local market.

Mr Tose said the great success of the issue was due to the strength of its pricing as well as that of the issuer.

Mr Zhang Guowen, deputy general manager of the BOC, Hong Kong, noted that the underwriting response was so overwhelming--far exceeding the 20 originally planned--that the bank closed underwriting applications within a few hours of launching. A total of 23 were accepted in the underwriting list.

The issue is negotiable with maturity of 5 years, available in denominations of U.S.\$50,000 each.

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